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**Market Administrator's
BULLETIN**

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Impact of Imitations On The Dairy Industry

Excerpts from Address by H. L. Forest Director, Dairy Division,
at meeting of Third Southeast Dairy Conference,
Columbia, South Carolina, November 6, 1968

I appreciate the opportunity to participate at your Third Southeast Dairy Conference and to add a few observations—as we see them from our vantage point in the USDA's Consumer and Marketing Service—on this timely and challenging topic: "Impact of Imitations on the Dairy Industry."

Substitutes for dairy products are not a new phenomenon. A number of them have been with us for some time; that is, margarine, coffee whiteners, whipped toppings and vegetable fat frozen desserts. However, the advent of filled and imitation milks has awakened a new sense of urgency within the dairy industry, and has focused attention on basic questions of industry and public policy which must be faced up to in the light of today's economics.

Over the years, substitutes have been taking an increasing share of the traditional market for certain dairy products.

Twenty years ago, per capita consumption of butter was more than twice that of margarine. Today the proportions are reversed. When we consider the growth in population which has occurred during this period, the decline in per capita butter consumption represents a market loss of staggering proportions.

Nondairy coffee whiteners now have taken about 35 percent of the market for light cream. Substitute toppings have taken more than half the total market for whipped toppings—where whipped cream once reigned supreme. Mellorine, although legal in only 11 States, represented about 7 percent of ice cream production last year.

Filled and imitation milks—although small in total volume at the present time—are potentially

significant newcomers to the family of dairy product substitutes. In my remarks, as suggested by your program chairman, I will use the term filled milk to refer to the product made from vegetable fat combined with either fresh skim milk or reconstituted nonfat dry milk. The term imitation milk will refer to the product containing no dairy ingredients other than sodium caseinate, which is a milk derivative.

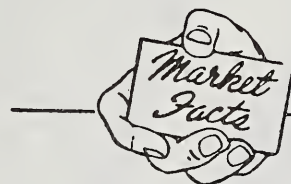
Consumer acceptance is a key factor in evaluating the economic significance of these products.

Sales data we have collected from our market administrators indicate that to date, these products have not made substantial inroads on the consumption of milk. Last November, about 2.4 million pounds of filled milk was sold in 14 Federal order markets. Sales increased moderately each month until March of this year when they totaled 5.2 million pounds in 22 order markets.

By September, the last month for which we have data, total volume of filled milk sales was about at the same level as in March. However, it was being sold in three fewer order markets than in March. With the exception of Central Arizona, sales in most markets have stabilized or declined in recent months.

Central Arizona is the only Federal order market where substantial quantities of filled milk are now being sold. As a matter of fact, in September, 71 percent of total filled milk distributed in Federal order markets was sold in Central Arizona—3.6 million pounds in Central Arizona and 1.5 million pounds in all other Federal order markets.

Why are sales relatively high in Central
(continued on back page)



Northwestern Ohio

MARKET FACTS FOR EASY REFERENCE

PRICE SUMMARY

| | Oct. 1968 | Sept. 1968 | Oct. 1967 |
|--|--------------|---------------|--------------|
| Market Blend (No location Adjustment) | \$5.630 | \$5.550 | \$5.140 |
| Class I (No Location Adjustment) | 6.030 | 6.030 | 5.500 |
| Class II | 4.230 | 4.230 | 3.913 |
| Producer Butterfat Differential for each one-tenth percent | .081 | .080 | .083 |

PRODUCTION SUMMARY

| | | | |
|---|------------|------------|------------|
| Total Lbs. of Producer Milk Delivered | 42,539,520 | 42,486,522 | 42,373,543 |
| Average Daily Class I Producer Milk | 1,061,403 | 1,040,415 | 1,069,502 |
| Average Daily Production per Producer | 921 | 940 | 945 |
| Total Number of Producers | 1,490 | 1,506 | 1,446 |
| Average B.F. Test of All Producers | 3.719 | 3.601 | 3.766 |

UTILIZATION SUMMARY

| | | | |
|--|-------------|-------------|-------------|
| Amount of Producer Milk in Class I | 32,903,486 | 31,212,459 | 33,154,571 |
| Amount of Producer Milk in Class II | 9,636,034 | 11,274,063 | 9,218,972 |
| Percent of Producer Milk in Class I | 77.35 | 73.46 | 78.24 |
| Percent of Producer Milk in Class II | 22.65 | 26.54 | 21.76 |
| TOTAL VALUE AT 3.5% | \$2,394,975 | \$2,358,002 | \$2,178,000 |
| TOTAL VALUE AT TEST | \$2,459,945 | \$2,391,288 | \$2,268,660 |
| INCOME PER PRODUCER (7 Day Average) | \$373 | \$371 | \$354 |

AVERAGE DAILY SALES (Quarts)

| | | | |
|-------------------------------|---------|---------|---------|
| Milk | 381,867 | 375,401 | 390,651 |
| Skim | 74,282 | 68,757 | 52,271 |
| Buttermilk | 5,290 | 4,081 | 3,910 |
| Flavored Milk and Drink | 33,402 | 30,004 | 26,894 |
| Cream | 6,410 | 6,438 | 7,388 |

Farm Milk Prices Continue Higher

The Dairy Situation, Economic Research Service USDA, November, 1968

Prices farmers receive for milk sold to plants and dealers this year are expected to average about \$5.25 per 100 pounds, about 5 percent above 1967. Prices gained only about 2 percent from a year earlier in the first quarter of 1968, but during April-October averaged over 5 percent higher. The October price of all wholesale milk was \$5.57 per 100 pounds, 5 percent above last October.

The seasonal rise in farm milk prices this fall is about average. Prices will likely reach their high in November, when milk production reaches its seasonal low. For November-December they are expected to be about 5 percent above a year earlier.

Price gains in 1968 have resulted from the higher support level for manufacturing grade milk, increased

Class 1 prices in Federal and many State regulated milk markets, and premiums above Class I price levels that producer organizations negotiated in numerous markets.

Manufacturing grade milk prices for 1968 likely will average slightly above \$4.20 per 100 pounds, up from \$4.06 last year. Since the support price was increased on April 1, manufacturing milk prices have averaged about 5 percent above year-earlier levels. Because milk supplies have exceeded commercial demand, prices for manufacturing grade milk so far this marketing year have held close to the support level. For milk average test the support level was \$4.00 per 100 pounds in the first quarter and \$4.28 since then.

Prices paid by dealers for milk used in fluid products (Class I) will

likely average about \$6.50 per 100 pounds in 1968, about 5 percent above 1967. These prices include any payments negotiated by producer organizations above minimum Federal order Class I prices. Payments above Class I minimum levels were made in about 50 markets this October, but in about 30 of these markets were lower than a year earlier.

Class I Prices in both Federal and State regulated markets have moved upward. Federal order Class I prices in October averaged about 8 percent above a year earlier, while prices in selected State-regulated markets averaged about 4 percent higher.

Class I prices this year have shown less than usual seasonal movement. This is due to the elimination of seasonal Class I pricing in Federal order markets.

Milk Production Nearing 1967 Levels

The Dairy Situation, Economic Research Service USDA, November, 1968

Output in September was 9.1 billion pounds. Although still 0.7 percent below the year-earlier level, the difference has narrowed from 2½ percent earlier in 1968. During the fourth quarter, prospective larger gains in output per cow may bring production near year-earlier output.

January-September milk output totaled 90.6 billion pounds, down 1½ percent from the same months of 1967. Declines were widespread, with only 14 States increasing production. Except in the Southern Plains and Pacific States, production was down in all regions. The greatest declines were 4 percent in the Corn Belt and 3 percent in the Northeast.

The recovery of milk production in several major dairy States helped slow the decline in U.S. output. September production in New York, Pennsylvania, and Indiana was nearly back to year-earlier levels, after having been down 6 percent in January 1968. After earlier losses, output rose 1 percent from September 1967 in Wisconsin and 4 percent in Cali-

fornia. These gains reflect increasing output per cow and, in most States, slowing declines in cow numbers.

September output per cow was 698 pounds, up 2.6 percent from a year earlier, but not enough to offset the approximately 3.3 percent September decline in milk cow numbers. However, the gain per cow was the largest so far in 1968, and compares with increases of only 1 percent early this year.

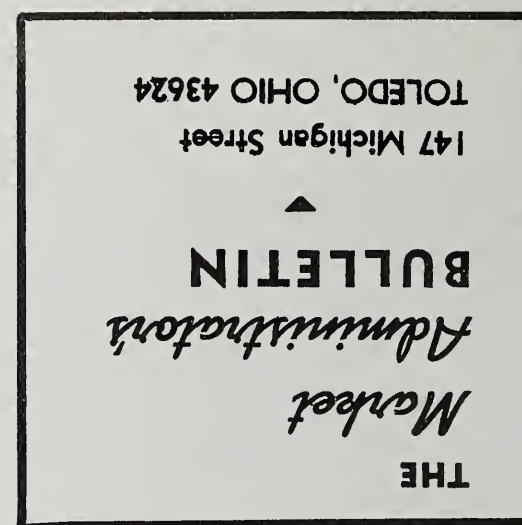
Milk production this year is forecast at about 118 billion pounds, compared with 119.3 billion pounds produced in 1967. Animal output has fallen 9 billion pounds since 1964. Although the decline in milk cow numbers is slowing this year, output per cow is gaining less than in recent years. This is causing a drop in total milk production.

In 1968, output per cow is expected to total about 9,010 pounds, up only 2.1 percent from 1967, compared with the 1960-67 average gain of 3.3 percent per year. Gains in milk per cow were small in early 1968 because of

poor quality hay and silage in Northern dairy areas and relatively small increases in grain feeding, even though milk-feed price ratios were at favorable levels.

The number of milk cows is dropping about 3½ percent this year, the smallest decline in the past 3 years. Higher milk prices have improved dairy incomes, helping to slow the reduction in dairy herds from the sharp declines in 1965 and 1966. However, off-farm employment opportunities, shortages of dairy labor, and rising labor costs still are causing farmers to leave dairying.

Beef cattle prices averaged almost \$1.00 per 100 pounds above a year earlier in January-October 1968, and prices of cutter and canner cows have continued strong. However, higher milk prices have offset the increased beef cattle prices, so that the manufacturing milk-beef cattle price ratio has remained about the same as in 1967. Herd culling has continued at a high rate, but perhaps less than the rates of the past 3 years.



Impact of Imitation . . .

(continued from page one)

Arizona? Two factors seem of particular significance: (1) The price differentials between whole milk and filled milk have been greater here than in many markets; and, (2) The product has been more aggressively promoted than in many other areas.

Thus, to date, inroads made by filled and imitation milk have been small—except in Central Arizona. The big question is: What will consumer acceptance be in the future? Nobody can say with certainty. However, we know that tremendous strides are being made in synthesizing foods. Therefore, I believe it would be prudent to proceed on the assumption that in time an acceptable imitation product will be developed.

The development of an acceptable, less costly milk substitute, particularly one made from nondairy ingredients, would alter significantly the demand picture for fresh fluid milk. In economists' lingo, the demand for milk could be expected to become more elastic; that is, a given percentage change in price would have a greater opposite impact on milk consumption.

The situation, I think, in the long run raises questions as to the ability of cooperatives to maintain Class I price levels. The outlook also must be considered in the light of recent

Market Quotations

OCTOBER
1968

| | |
|---|--------|
| MINNESOTA-WISCONSIN PRICE SERIES | \$4.28 |
| Butter-nonfat dry milk price, 3.5% per cwt. (Columbus) | 4.23 |
| Average Price per lb. 92-score butter at Chicago | .6729 |
| Average carlot prices, spray process nonfat dry milk, f.o.b. Chicago area manufacturing plants. | .2295 |

developments with respect to milk supplies and milk prices.

Since 1964, milk production has declined from an annual rate of 127 billion pounds to about 118 billion pounds this year. This occurred during a period of time when the price for all milk wholesale and the dealers' average buying price for milk for fluid use have increased more than \$1.00 per hundredweight.

Despite these price increases, dairy farmers left dairying in record numbers and production still is declining. With milk production costs increasing, it is hard to foresee lower milk prices. Yet the higher prices which arose from the need to moderate production declines provide a strong incentive for the development of non-dairy substitutes.

What courses of action are open to the dairy industry to meet the challenge posed by substitute dairy products? Three come quickly to mind:

Keeping costs at a minimum efficiency in the production and distribution of dairy products.

Increased advertising and promotion efforts.

Increased emphasis on the marketing of skim milk and fortified low-fat milk. Margins on these products have been generally wide. These products could be made the leaders of the fluid milk line in the battle against substitutes.

These are not the only answers—and may not be the best answers. But the search must go on to find answers and to forge programs of action to bring them to fruition.

Commercial disappearance of non-fat dry milk was up about 18 percent from a year earlier in the first quarter, but declined in the second quarter. Because of early gains, sales through July are estimated about 7 percent above a year earlier.